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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000085

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DOE FOR GPERSON, CHAYLOCK, CGAY
TREASURY FOR PETERS, HALL

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SUBJECT: PETROBRAS EXEC SAYS NIGERIA PRODUCING BELOW ITS
OPEC TARGET

Classified By: Consul General Donna M. Blair for reasons 1.4 (B) and (D)
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¶1. (C) Summary: The head of Petrobras Nigeria said on February 9 that Nigeria is producing 80,000 barrels of oil per day less than its current OPEC quota. He expected the Total-led Akpo project, in which Petrobras has a 40 percent stake, to come on stream before April 1. Once Akpo comes on stream, Nigeria will become Petrobras's largest petroleum producing country outside of Brazil, at least until Petrobras developments in the Gulf of Mexico are completed. However, he acknowledged the company is cutting costs in its overseas operations, partly in response to lower oil prices, and partly in a strategic move to focus resources on exploration in Brazilian waters. A plan to export Brazilian-produced ethanol to Nigeria failed and is not expected to be revived. Despite annual pressure from Brazil's President, Petrobras refuses to explore for oil in the Nigeria-Sao Tome Joint Development Zone which, the executive said, does not have enough oil reserves to be commercially attractive to major oil companies. The company continues to spurn Nigerian requests to build refineries in country. End Summary.

Nigerian Production Below Quota

¶2. (C) Rudy Ferreira, the Managing Director of Petrobras Nigeria, told Energyoff on February 9 that Nigeria is producing 80,000 barrels per day less than its OPEC production quota of 1.7 million. Ferreira believed this is solely because of ongoing security problems in the Niger Delta, and that the GON would probably be inclined to exceed its quota if it could. He agreed that most of the production losses come from Shell's onshore subsidiary, Shell Petroleum Development Corporation. He labeled Shell's continued diminished oil output in Nigeria "shocking" and said those losses would be devastating to smaller oil companies like Petrobras.

¶3. (C) Ferreira acknowledged that Nigeria's production numbers may not be as dire as portrayed. Work on Total's Akpo offshore project, in which Petrobras has a 40 percent share, is ahead of schedule and the field will likely come on stream before its officially planned startup date of April 1.

When fully operational a few months after startup, the field is expected to produce 225,000 barrels of oil equivalent per day. An estimated 175,000 barrels of that production will be in the form of natural gas "lease condensate", essentially a very light form of oil that does not count against an OPEC member's production quota. (Note: The lease condensate from the Akpo project will be processed and exported directly from the Akpo offshore platform. Natural gas produced by the field will be sent to the Bonny Liquefied Natural Gas plant for processing and export. End Note.) Meanwhile, Chevron's Agbami deep offshore oil field, which began production in August 2008, is scheduled to ramp up production from 125,000 barrels per day to 250,000 barrels by June 2009. Petrobras has a 8 percent stake in Agbami and increased production from that field will force the GON to make a formal decision on whether to abide by its OPEC quota or not, barring further unplanned outages from onshore fields.

Petrobras to Cut Costs, Remain in Nigeria

14. (C) With Agbami and Akpo in operation, Nigeria will become Petrobras' largest producing country outside of Brazil, its equity stakes in the two fields producing 70,000 barrels of oil equivalent per day. Additionally, Petrobras is leading a consortium exploring for oil in deep water oil blocks OPL 324 and OPL 250. That said, Ferreira remarked he had spent the past several days in video teleconferences with Petrobras' headquarters discussing cost cutting measures. When asked if cost cutting was related to recent lower oil prices, Ferreira

LAGOS 00000085 002 OF 002

said it was partly related to oil prices, but was also part of a broader strategic plan by Petrobras to focus its resources on oil fields offshore Brazil.

15. (C) Ferreira noted that while Petrobras may be interested in further Nigerian deep offshore developments, it has no plans to move onshore. When asked about the Nigeria-Sao Tome Joint Development Zone (JDZ), he said Petrobras (and other major oil companies) did not see commercially attractive prospects in the area and his company has no plans to explore in those waters. However, Ferreira related that every year the Sao Tome and Principe President makes a plea to Brazilian President Luiz Inacio da Silva asking him to push Petrobras to invest in the JDZ, these requests usually coming on the margins of meetings between the heads of state of Portuguese speaking countries. According to Ferreira, immediately afterwards President da Silva contacts the head of Petrobras to ask why the company is not doing more in Sao Tome and every year the head of Petrobras has to remind da Silva that there is not a commercially significant amount of oil in the JDZ. That explanation, Ferreira said, usually ends the conversation, at least until the next time the two presidents meet.

Petrobras on Chinese and Russian Activity in Nigeria

16. (C) Ferreira did not see Chinese oil companies as playing a significant role in Nigerian offshore oil field development now or in the near future. However, he did see Chinese as an active threat in oil field service industry. A Petrobras subsidiary recently lost a bid to perform seismic survey work in Nigeria to a Chinese company. The Chinese were able to significantly underbid the Brazilians by, Ferreira thought, bringing cheap Chinese labor to Nigeria and ignoring Nigerian local content directives. Ferreira said Russian companies appear particularly interested in the Nigerian natural gas sector, but like other oil company contacts who have mentioned Russian activity, he was unable to point to any specific projects or deals to back up his claim.

Ethanol Export Plan Dead; No Help on Refineries

¶7. (C) A 2005 agreement between the GON and Petrobras to import ethanol into Nigeria from Brazil has failed. After lengthy delays in starting the project, Petrobras had begun loading its first tanker of ethanol in Brazil for export to Nigeria when the Nigerians abruptly ordered the shipment called off. According to Ferreira, the Nigerian National Petroleum Corporation (NNPC) finally realized it had no facilities for storing ethanol, no method for mixing it with gasoline, and no plan to distribute pure ethanol or blended gasoline throughout the country. Ferreira does not expect the ethanol export plan to be revived. In an aside, he noted that NNPC has repeatedly inquired about the possibility of Petrobras building petroleum refineries in Nigeria. Ferreira said his company has absolutely no interest in doing so.

¶8. (U) This cable cleared by Embassy Abuja.
BLAIR